



# State of California:

Internal Control and State and Federal Compliance  
Audit Report for the Fiscal Year Ended June 30, 2008

May 2009 Report 2008-002



# CALIFORNIA STATE AUDITOR

May 2009

as a control document and when completed correctly will provide justification for TAA eligibility. In addition, EDD will implement a revised monitoring system that will combine both onsite monitoring and document reviews.

### Questioned Costs

Unknown

### Recommendations

EDD should improve its internal controls related to the TAA program. Specifically, EDD should conduct quarterly on-site reviews of randomly selected participant files, as recommended by Federal Labor. Additionally, EDD should develop policies and procedures specifying what documents should support each of the six conditions for training approval and include a checklist in the *Trade Act Manual*.

### Department's View and Corrective Action Plan

EDD stated that it revised and published the TAA Training Plan, DE8751, in October 2008. The Training Plan serves as a control document. When completed correctly, the Training Plan provides justification for TAA eligibility. The procedures for the revised DE 8751 and a TAA Procedural Checklist were published on the TAA Team Site in SharePoint (the EDD's Intranet) in October 2008. The TAA Team Site can be updated on a daily basis and allows TAA field specialists day-to-day access to current program policies and procedures. This helps ensure compliance with current program regulations until the Trade Act Manual is updated.

EDD also stated that it has procedures in place to randomly monitor TAA document files on a quarterly basis by TAA program staff in EDD's Central Office. The EDD's Workforce Services Branch is coordinating with the Compliance and Review Division to develop onsite document monitoring one quarter of every year.

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Reference Number:	2008-2-8
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	60F8-0900; 2008 60F7-0900; 2007
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Industrial Relations (Industrial Relations)

### Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS* (OMB CIRCULAR A-87)

#### Appendix B to Part 225—Selected Items of Cost

8. Compensation for personal services
  - h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

### Condition

In our prior-year audit, we reported that Industrial Relations lacked adequate controls to ensure that the personal services costs it charged to the California Occupational Safety and Health program (program) are allowable. Specifically, Industrial Relations did not require employees who were expected to work solely on the program to complete required certifications and did not ensure that a responsible official approved the employees' Absence and Additional Time Worked Report.

During our follow-up procedures for fiscal year 2007-08, we found that Industrial Relations implemented the recommendation related to ensuring a responsible party approved the employees' Absence and Additional Time Worked Reports. However, we also found that Industrial Relations had not yet implemented the recommendation related to ensuring it prepares semiannual certifications for its employees who work solely on that program. Industrial Relations stated that it plans to implement procedures to conduct periodic certifications for employees who worked solely on federal grants and who do not submit daily time sheets during fiscal year 2008-09. Specifically, Industrial Relations stated that the first certification will occur at the end of March 2009, and the second certification would occur at the end of September 2009. Industrial Relations also stated that it would use this procedure in subsequent years. Until Industrial Relations implements this procedure, the awarding federal agency has less assurance that the personal services costs charged to the program were valid.

### Questioned Costs

Unknown

### Recommendation

Industrial Relations should implement its procedures for ensuring that it conducts semiannual certifications for its employees who work solely on that program.

### Department's View and Corrective Action Plan

Industrial Relations stated that it agrees with the finding and will start the semiannual certifications by March 31, 2009.

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Reference Number:	2008-3-12
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	60F8-0090; 2008 60F7-0090; 2007
Category of Finding:	Cash Management

State Administering Department: Department of Industrial Relations  
(Industrial Relations)

### Criteria

TITLE 29—LABOR, PART 97—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 97.21—Payment

- (d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) are not met.

TITLE 31—MONEY AND FINANCE: TREASURY, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL-STATE FUNDS TRANSFERS, Section 205.2—What Definitions Apply to This Part?

*Pay out funds for Federal Assistance Program Purposes* means, in the context of State payments, to debit a State account for the purpose of making a payment to:

- (1) A person or entity that is not considered part of the State pursuant to the definition of "State" in this section; or
- (2) A State entity that provides goods or services for the direct benefit or use of the payor State entity or the Federal government to further Federal assistance program goals.

### Condition

In our prior-year audit, we reported that Industrial Relations indicated that it used the reimbursement method to obtain federal funds for the California Occupational Safety and Health Program (program). However, based on the monthly drawdowns reviewed, Industrial Relations requested amounts exceeding the actual amounts spent. Furthermore, Industrial Relations obtained two advance payments but had no documentation to indicate that the advances had been approved by the awarding federal agency. Finally, we reported that Industrial Relations' use of two separate accounting reports to determine monthly expenditures contributed to the discrepancies between the amounts requested and the actual amounts spent. By deviating from cash-management regulations, Industrial Relations risks being financially penalized by its federal oversight agency.

During our follow-up procedures for fiscal year 2007–08, we found that Industrial Relations partially corrected this finding. Specifically, for the two drawdowns we tested, Industrial Relations did not exceed its expenditures for the month. Further, Industrial Relations stated it discontinued using the second accounting report to determine its monthly expenditures in October 2007. However, although Industrial Relations asserted that it obtained verbal approval from the U.S. Department of Labor, it did not obtain written federal authorization for an advance payment of \$1 million in October 2007. Industrial Relations stated that it did not correct this finding until August 2008 and that in the future it would request federal approval if advances were necessary.

### Questioned Costs

Not applicable.

### Recommendation

If Industrial Relations finds that it needs an advance of funds, it should obtain written authorization prior to doing so and then follow appropriate procedures to reconcile the advance to actual expenditures incurred during that period.

**Department's View and Corrective Action Plan**

Industrial Relations stated that it agrees with the finding. It also stated that if an advance is needed, a Request for Advance or Reimbursement must first be submitted to the federal Department of Health and Human Services Division for approval before any drawdown is made. In addition, Industrial Relations stated that it will maintain proper documentation that shows the reconciliation of the advance with the actual expenditures for the period.

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Reference Number:	2008-8-10
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	60F8-0090; 2008 60F7-0090; 2007
Category of Finding:	Period of Availability
State Administering Department:	Department of Industrial Relations (Industrial Relations)

**Criteria**

TITLE 29—LABOR, PART 97—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 97.23—Period of Availability of Funds

- (a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- (b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

TITLE 29—LABOR, PART 97—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart A—General, Section 97.3, Definitions

*Obligations* means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.

**Condition**

In our prior-year audit, we reported that Industrial Relations lacked adequate controls to ensure that it liquidated all obligations incurred not later than 90 days after the end of the funding period. The funding period of the federal awards used to partially fund the California Occupational Safety and Health program (program) is from October 1 of one year to September 30 of the next year. Although federal regulations require all obligations be liquidated by December 31 (90 days after the end of the funding period), Industrial Relations liquidated more than \$140,000 in program obligations

from the 2006 federal award after December 31, 2006. It also liquidated roughly \$5,000 in program obligations associated with the 2005 federal award during state fiscal year 2006–07, all of which were out of the period of availability for those funds.

During our follow-up procedures for fiscal year 2007–08, we found that Industrial Relations had partially corrected this finding. Specifically, we reviewed the Purchasing Authority Purchase Orders (purchase orders) for three of the 13 obligations associated with the 2007 federal award that were issued during August 2007 and September 2007. We found that Industrial Relations did not place the actual order for the items shown on one purchase order until October 10, 2007. Thus, a valid obligation did not exist during the funding period. Also, while performing our procedures, we also noted one transaction associated with its 2007 federal grant that Industrial Relations liquidated in April 2008, after the December 31, 2007 deadline. Thus, as previously reported, it appears that Industrial Relations is not in compliance with federal regulations regarding the period of availability.

### Questioned Costs

Obligations of \$4,042.79 for federal fiscal year 2007 that were not based on a valid order placed during the funding period.

Obligations of \$10.42 for federal fiscal year 2007 paid after December 31, 2007.

### Recommendation

Industrial Relations must establish procedures to ensure that it only charges to the award costs resulting from valid obligations of the funding period and that it liquidates these obligations not later than 90 days after the end of the funding period.

### Department's View and Corrective Action Plan

Industrial Relations stated that it agrees with the finding and will adhere to the established procedures to comply with federal requirements. Industrial Relations also stated that it will continue monitoring expenditures to ensure that only valid obligations are charged to the award costs for the proper funding period. In addition, Industrial Relations stated that it will ensure that all obligations are liquidated within 90 days from the end of the funding period.

Reference Number:	2008-9-1
Federal Catalog Numbers:	17.207; 17.801; 17.804
Federal Program Titles:	Wagner-Peyser Act; Disabled Veterans' Outreach Program (DVOP); Local Veterans' Employment Representative Program (LVER)
Federal Award Numbers and Year:	ES-16207-07-55-A-6; 2007 E-9-5-8-5085; 2007
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Employment Development Department (EDD)

### Criteria

TITLE 29—LABOR, PART 98—GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart B—Covered Transactions, Section 98.220—Are Any Procurement Contracts Included as Covered Transactions?

In the Dislocated Workers final 1 year 2007–08, EDD reported \$0.00 on the transfers to the WIA Adult Program line. However, using records obtained from EDD Financial Management Unit staff, we confirmed that \$785,243 of Dislocated Worker funds were transferred into the WIA Adult Program between October and November 2007.

A manager in the Financial Management Unit confirmed EDD's error and stated that it occurred because data from the previous quarter's report was not carried forward. After we brought this error to EDD's attention, the manager contacted Federal Labor, and it noted the error in its records.

### Questioned Costs

Not applicable.

### Recommendation

EDD should ensure that all necessary information is carried forward from one financial report to the next.

### Department's View and Corrective Action Plan

EDD stated that, as noted in the Condition section of this document, the manager of the Financial Management Unit (FMU) has acknowledged omission of the \$785,243 transferred between the Workforce Investment Act Dislocated Worker and Adult programs. The FMU manager did contact the Department of Labor (DOL—Region VI) about the oversight and the DOL has noted the omission in their records. The corrective action plan is for the FMU manager to review subsequent reports closer to ensure the omission of such amounts does not occur.

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Reference Number:	2008-12-14
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	60F8-0090; 2008 60F7-0090; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Industrial Relations (Industrial Relations)

### Criteria

TITLE 29—LABOR, CHAPTER XVII—OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION, DEPARTMENT OF LABOR, PART 1954—PROCEDURES FOR THE EVALUATION AND MONITORING OF APPROVED STATE, Subpart B—State Monitoring Reports and Visits to State Agencies, Section 1954.10—Reports From the State.

- (c) In addition to any other reports required by the Assistant Secretary under sections 18(c)(8) and 18(f) of the Act and 1902.3(1) of this chapter; the State shall submit quarterly and annual reports as part of the evaluation and monitoring of state programs.

Special provisions outlined in the federal award include a financial report with the following frequency:

F2. Financial Status Report (SF-269) is due in the Regional Office 30 days after the end of each Federal Fiscal Quarter. Recipients are to submit two signed originals of the report.

- (b) Close-out Reporting. All agreements must be closed 90 days after the end of the performance period (generally December 31). A copy of the Financial Status Report must accompany the recipient's close-out documents.

### Condition

In our prior-year audit, we reported that Industrial Relations had submitted an inaccurate closeout report for the 2006 federal award associated with the California Occupational Safety and Health Program (program). Specifically, in its closeout report for the 2006 federal award, Industrial Relations reported it spent the entire fiscal year 2006 award of \$23.1 million and had no unliquidated obligations. However, based on data from its accounting records, Industrial Relations actually had \$360,000 in unliquidated obligations at the end of December 2006.

During our follow-up procedures for fiscal year 2007-08, we found that Industrial Relations has not fully corrected this finding. Specifically, on its 2007 federal fiscal year closeout report, Industrial Relations reported the federal share of net outlays as \$23 million, which was the total amount of its 2007 federal award. In the "Remarks" section of the report, Industrial Relations reported that it had nearly \$316,000 in obligations that were unliquidated and that would be paid fully with state funds. Industrial Relations was able to provide accounting records to support its total outlays, program income, and how it arrived at the nearly \$316,000 in unliquidated obligations. However, it did not provide accounting records to demonstrate that the unliquidated obligations were paid with state funds. Thus, we are unable to verify that federal funds were not used to pay for the unliquidated obligations and that Industrial Relations has provided accurate information to the U.S. Department of Labor regarding this issue.

### Questioned Costs

Not applicable.

### Recommendation

Industrial Relations should ensure that it retains adequate documentation to support the information it submits on its Financial Status Report with the appropriate accounting records.

### Department's View and Corrective Action Plan

Industrial Relations stated that it agrees with the finding and will develop a report that will support the information that unliquidated obligations were paid with state funds.

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Reference Number:	2008-13-16
Federal Catalog Numbers:	17.258, 17.259, 17.260
Federal Program Titles:	Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers
Federal Award Number and Year:	AA-16017-07-55-A-6; 2007
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Employment Development Department (EDD)